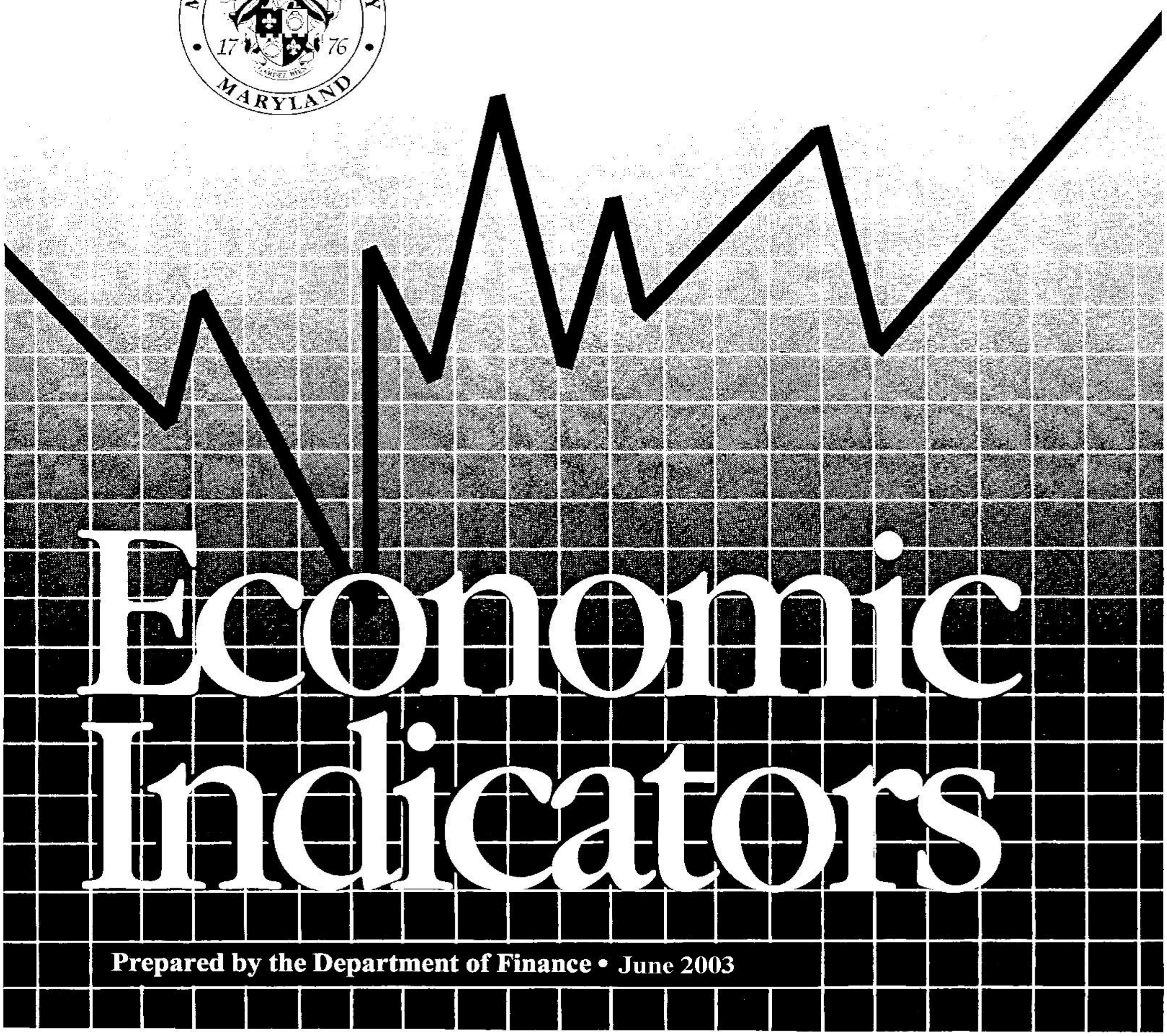

Economic Indicators

Prepared by the Department of Finance • June 2003

The purpose of this report is to keep policy makers apprised of changes in
the national and local economies that
the Montgomery County Department of Finance
believes may impact current and/or future revenues and expenditures.

This report is also available through the Internet
on the Montgomery County Web Page:
http://www.montgomerycountymd.gov

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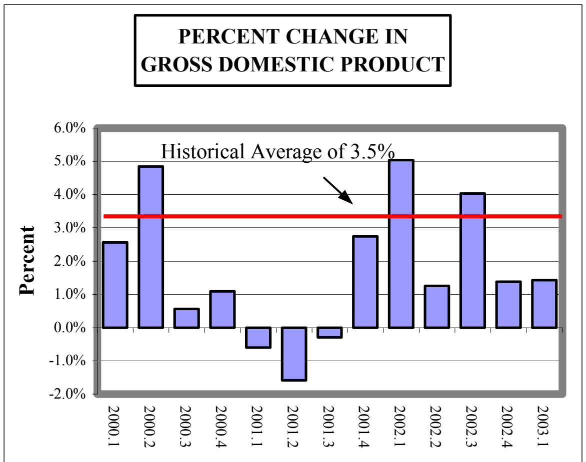
ECONOMIC OVERVIEW

According to the most recent data, the U.S. economy continues to experience growth in income and output but without growth in employment. Real gross domestic product increased 1.4 percent during the first quarter of this year and a full percentage point lower than the annual rate for 2002. Though the geopolitical uncertainty over the war in Iraq has diminished since April, the postwar bounce in consumer confidence, either measured by the University of Michigan or Conference Board surveys, faded in June. There are some bright spots that the economy may be turning around but the data are not overwhelming. Consumer spending and residential real estate investment continue to contribute to economic growth, labor productivity continues to grow, and the stock market rebounded nicely during the second quarter of this year with the broad-based S&P 500 stock index posting a gain not experienced since 1998.

However, because the Federal Open Market Committee (FOMC) of the Federal Reserve Board recognized that the economy had not yet exhibited sustainable growth, it lowered the target rate for the federal funds rate by 25 basis points to 1 percent, the thirteenth such action in the past two and a half years. While output continues to increase, employment and business investment continue to remain a drag on establishing a sustainable expansion. Since the start of the recovery, total payroll employment has declined by almost 600,000 jobs making this a jobless recovery to date.

Investment in nonresidential structures declined 2.9 percent and investment in transportation and industrial equipment declined 18.9 percent during the first quarter and both sectors have declined eight of the last ten quarters making such declines one of the longest on record. Recent data also suggest that business investment has not improved over the past two months. Private construction declined 2.7 percent during April and May and new orders for nondefense capital goods excluding aircraft decreased 3.2 percent over the same period.

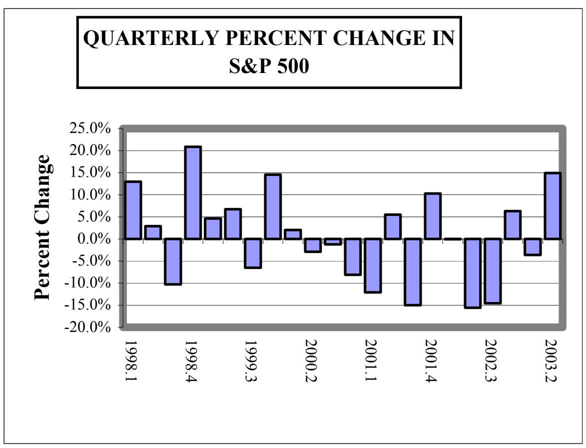


SOURCE: Bureau of Economic Analysis
U.S. Department of Commerce

With declines in non-residential construction and business spending during April and May, the growth in real gross domestic product for the second quarter is unlikely to be much greater than the first quarter's growth suggesting that the economy has not achieved sustainable growth. Economic forecasters surveyed by the Federal Reserve Bank of Philadelphia (Livingston Survey) see output increasing a meager 1.9 percent during the second quarter of this year but picking-up during the second half of 2003.

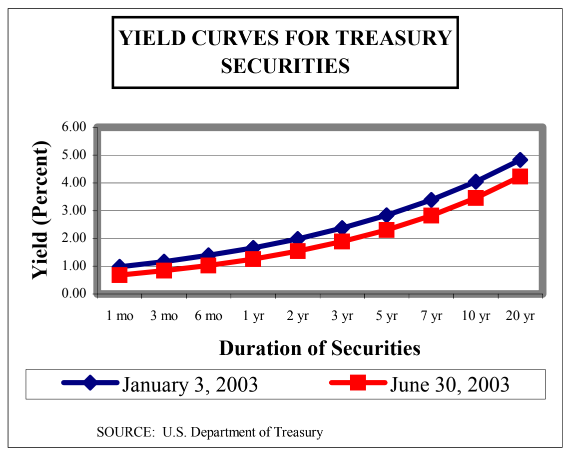
Because of lackluster business investment during the past two years, companies have shed excess capacity at such a high rate that, according to *BusinessWeek,* they are using it up faster than replacing it. Such declines in capacity may create a demand for new business equipment when the economy improves during the second half of this year. Because of such potential demand coupled with an increase in consumer spending attributed to the recent income tax cuts, the respondents to the survey believe the economy's output will grow 3.5 percent in the second half of this year, and increase 3.8 percent during the first half of 2004. Both rates are at or above the recent historical average.

Accompanying the lackluster business investment during this recovery has been the decline in payroll employment. Since the recovery began in November 2001, the private sector lost over 1.4 million jobs based on revised estimates by the Bureau of Labor Statistics, U.S. Department of Labor, making this a "jobless" recovery with the worst employment situation compared to previous recovery periods. The largest cuts occurred in the goods-producing industries with over 1 million jobs lost since the economic recovery began.

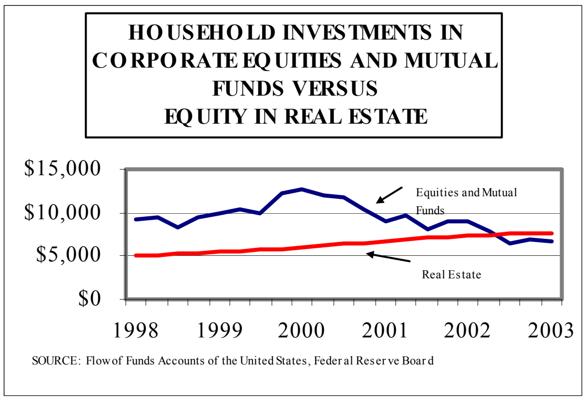


Inflation continues to remain subdued with consumer prices increasing a modest 2.1 percent during the past year (June 2002 to June 2003) and "core" inflation an even lower 1.5 percent over the same period. Producer prices increased a modest 2.9 percent during the past year, while prices for finished goods less food and energy actually decreased 0.3 percent over the same period.

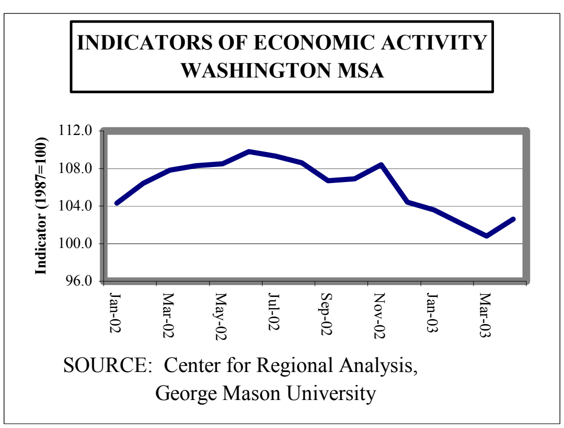
With the accommodative policy established by the FOMC and with inflation remaining subdued, the yield curve for U.S. Treasury securities continues to exhibit a sharply positive slope. An upward sloping yield curve portends economic growth over the next four quarters. While the slope of the curve has remained fairly constant since the beginning of the year, the downward shift of the entire curve suggests that inflationary expectations remain modest over the near term. With such expectations about inflation, long-term interest rates, especially 30-year fixed rate mortgages, are expected to remain at historic lows for the foreseeable future. Both adjustable rate and 30-year fixed rate mortgages continue to remain at historic lows helping to sustain the boom in the housing market and mortgage refinancing.



Despite the recent surge in stock prices, real estate investment remains the key source of household wealth. According to the most recent data from the Fed, household net worth remained flat during the first quarter of 2003. The rise in real estate investment offset the decline in stock holdings and mutual funds. If both real estate and equities advance together, the gains in household net worth may help support more consumer spending. Real personal disposable income increased 0.8 percent during April and May compared to no growth during the first quarter of this year. Such growth suggests that personal consumption expenditures may help fuel stronger economic growth.



It is against the current and future national economic outlook that the economic performance of the Washington metropolitan area and Montgomery County is analyzed. According to the Center for Regional Analysis (CRA), the region's economy rebounded in April after a sluggish performance during the first quarter. The rebound was attributed to increases in payroll employment, consumer confidence, and purchases of nondurable goods.



According to the latest economic report by CRA, over 32,000 new full-time payroll jobs were generated during the first four months of this year compared to the same period last year. Jobs increased 1 percent compared to a 0.2 percent decrease nationwide over the same four-month period. The growth in jobs suggests that the regional economy is growing at a rate above 3 percent compared to the national rate of less than 2 percent.

With the regional economy growing at a 3 percent rate and with a concomitant growth in employment, the unemployment rate in the region and in the County declined while the national rate increased to a nine-year high. The region's unemployment rate dropped from 3.7 percent in May 2002 to 3.4 percent in May of this year. The County's rate declined from 2.8 percent in May of last year to 2.5 percent in May of this year, which is the lowest unemployment rate in the state.

The region's economy is different but not immune to national and international forces. The difference is due to the presence of the federal government. Through direct employment, grants in aid, and procurement, the federal government remains the largest industry in the region and according to Economy.com Inc., represents 30 percent of the County's estimated $45.4 billion economy in 2003. Approximately 12 percent of the County's personal income comes directly from federal government employment and retirement and disability payments, 13 percent directly from federal procurement, and an additional 4 percent from other direct payments and grants.

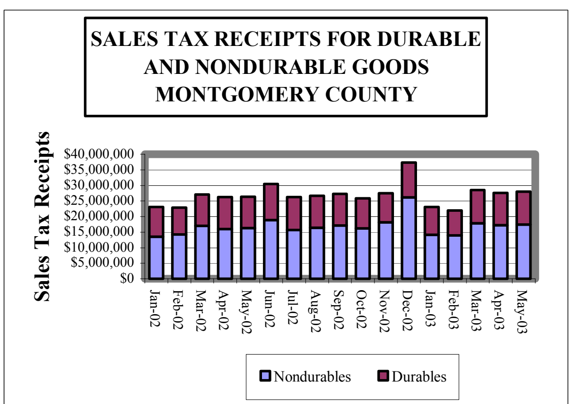
While the region's economy showed improvement, Montgomery County's economy experienced mixed results during the second quarter of this year. Highlights of the County's economic performance include:

- Retail sales as measured by sales tax receipts continued to rebound after a colder-than-normal winter.
- Inflation remained subdued though above the national rate.
- Sales of new homes have increased three months in a row while average home prices appreciated sharply.
- New construction continued to decline with significant decreases in both residential and non-residential construction permits and starts.
- Office vacancy rates for Class A type property declined slightly in June.

MONTGOMERY COUNTY ECONOMIC INDICATORS

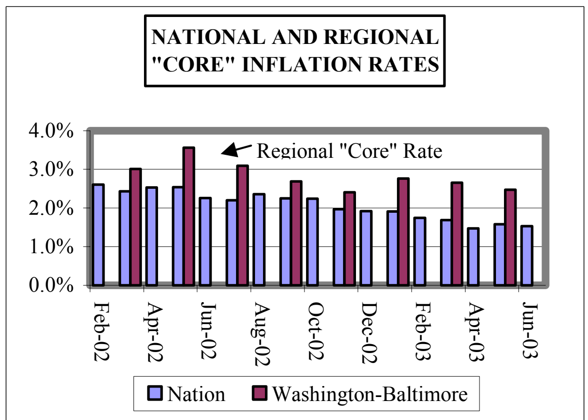
Retail sales

Retail sales as measured by sales tax receipts increased 4.5 percent in May compared to May of last year. May's increase is above the 3.6 percent rate in March and April. These increases offset dismal sales during January and February.



The growth in sales is attributable to the purchases of nondurable goods, which increased 4.5 percent during the first five months of this year compared to the same period last year. However, purchases of durable goods were lackluster since the beginning of the year despite a significant increase in March. If the past trend is an indicator of future growth, sales during the month of June should exceed April and May's sales.

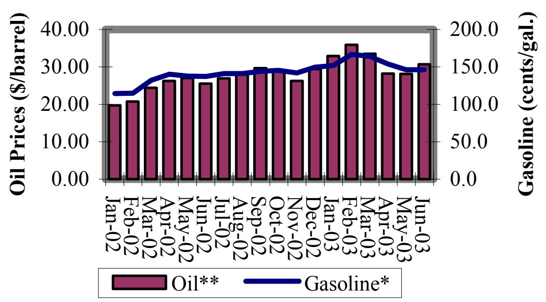
Inflation as measured by the Consumer Price Index remained subdued during the first five months of this year. Since January, the "core" rate of inflation, consumer items not including food and energy goods, remained below 2 percent at the national level and 3 percent at the regional (Washington-Baltimore CMSA) level. The higher rate in the region is due to stronger housing price growth compared to the entire nation.



SOURCE: Bureau of Labor Statistics, U.S. Dept. of Labor

While the regional "core" inflation rate remained constant between March and May of this year, the rate for all consumer items including food and energy declined 0.2 percent. The contributing factor to the decline was the decrease in the price of gasoline, which benefited from a drop of $7 per barrel in the price of oil from February to May. The decline in oil prices was matched by a drop in gasoline prices of up to 20 cents per gallon. However, since then, oil prices have increased $2 per barrel suggesting that gasoline prices also may increase. Because of that rise, as well as the traditional summer demand, overall inflation is expected to increase.

GASOLINE AND OIL PRICES

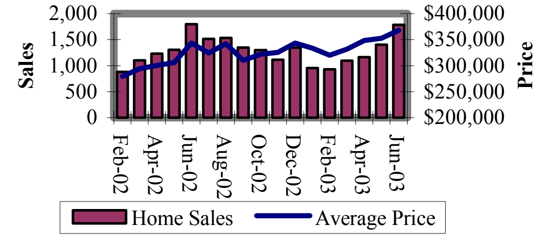


SOURCES: *Energy Information Agency, U.S. DOE, and **Federal Reserve Bank of St. Louis

Residential Real Estate

During the first half of this year, home prices have increased 14.3 percent compared to the same period last year, while home sales increased only 1.6 percent. With the stock market experiencing significant declines over the past three years, Montgomery County residents appear to have shifted their investment portfolio to other capital assets such as housing. With such an apparent shift in investment and with a limited supply of housing in the County, prices continued to appreciate at double-digit rates.

MONTHLY HOME SALES AND AVERAGE PRICE MONTGOMERY COUNTY



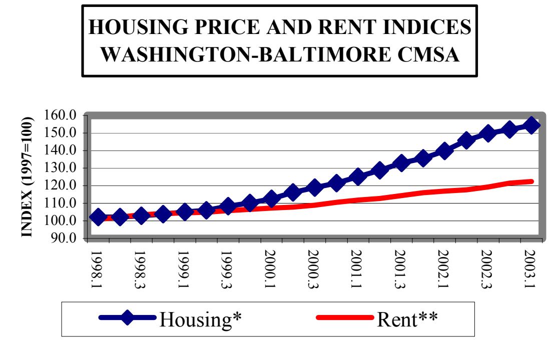
SOURCE: Metropolitan Regional Information Systems, Inc.

The high demand for housing in the County is reflected in the number of days a property is on the market. Based on data provided by Metropolitan Regional Information Systems, Inc., the average has remained approximately 30 days for the past year and a half. The recent average is significantly lower than averages experienced from 1997 (160 days) to 2000 (40 days).

With such a portfolio shift from equities into residential property, the issue raised by economists is whether the real estate bubble has replaced the stock market bubble of the latter part of the 1990s. Fed Chairman Alan Greenspan in a speech on March 4th to the Independent Community Bankers of America stated that any analogy between home prices and "the stock market pricing behavior and bubbles is a rather large stretch." He contends that there is no house-price bubble because unlike the stock market, "there is no national housing market." A speculative bubble could exist locally if two criteria are met. The first criterion of a housing-price bubble, or economic criterion, suggests that housing prices would continue to increase while construction (supply) exceeds sales (demand) in that area or region. The second criterion, or financial criterion, suggests that bubbles do occur when the price of any asset, including housing, exceeds its underlying or intrinsic value. That is, when the price of an asset exceeds its discounted cash payments to the investor. While housing prices are not listed on a national exchange, the underlying value of a home should reflect the discounted rent (cash payments) one would lease.

Because of the rapid increase in home prices in the Montgomery County, the issue is whether there exists a housing-price bubble. Based on the recent construction activity in the County, the price increase is attributable to demand exceeding supply rather than to the speculative concept that price increases occur despite supply exceeding demand. As discussed in the next section, construction activity has declined significantly during the first five months of the year. Therefore, under the first criterion, there appears to be no housing-price bubble in the County.

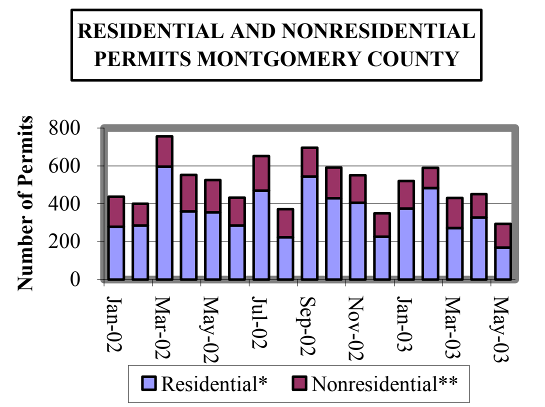
However, comparing the increase in the house price index for the Washington-Baltimore CMSA to the increase in the consumer price index for owners' equivalent rent of primary residence provides a different assessment under the second criterion. Since the first quarter of 1998, the house price index increased 51.1 while the index for rental equivalent increased only 21.2 percent. Such a disparity suggests that the regional housing market may be experiencing prices that are above their underlying or intrinsic value. Because the two criteria provide conflicting assessments, there is no definitive conclusion about the existence of a housing-price bubble.



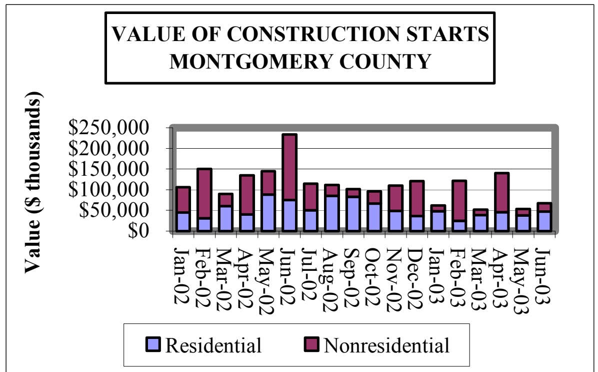
SOURCES: *Office of Federal Housing Enterprise Oversight, and ** Bureau of Labor Statistics, U.S. Dept. of Labor

Construction

Construction activity in the County during the first five to six months of this year experienced a significant decline compared to last year. The decline in residential permits and construction starts, supply has fallen behind the demand for housing. Such an imbalance between supply and demand is one reason for the dramatic increase in home prices despite a weak labor market and economy. Moreover, the drop in nonresidential permits and construction starts reflects the high vacancy rates among business property in the County and the region.



SOURCES: *Bureau of the Census, U.S. Department of Commerce, and **Montgomery County Department of Permitting Services.



SOURCE: Dodge Analytics, McGraw-Hill Construction

During the first five months of this year, the number of residential permits issued declined 13.3 percent compared to the same period last year. A 31.3 percent drop in the value of new residential construction projects matched the decline in permits over the same six-month period in 2002. While the drop in the value of construction activity can be attributed to the harsh winter, the decline continued in March (-36.0%), May (-57.1%), and June (-36.8%) partially offset by an increase in April (14.0%).

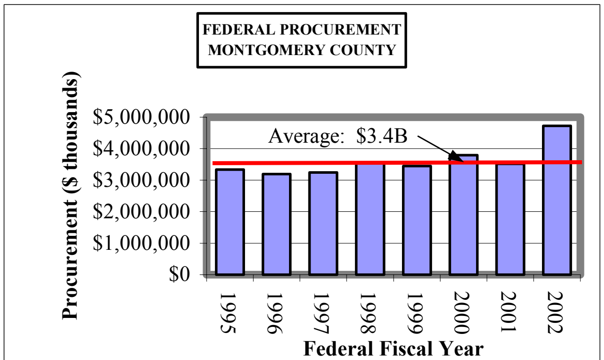
Nonresidential construction activity in the County was weaker compared to residential construction. During the first five months, nonresidential permits declined 17.4 percent compared to 2002. The decline in permits also resulted in a dramatic drop in construction starts. Since the beginning of this year, the value of nonresidential projects decreased every month this year compared to the same period last year and were 50.7 percent below last year's activity.

Such a decline in nonresidential construction can be attributed to an oversupply of office space in the County and in the Washington metropolitan region. Based on data compiled by CoStar Group Inc., local commercial real estate for the Maryland suburbs had a vacancy rate of 12.7 percent during the second quarter of this year, up from 12.0 percent during the first quarter. Vacancy rates in the Maryland portion of the Washington metropolitan area has been steadily increasing since the latter half of 2000.

The vacancy rate for Class A commercial property in Montgomery County experienced the same dramatic increase as other jurisdictions in the Washington metropolitan area. While lower than Loudon, Fairfax and Prince George's counties, the rate has dramatically increased from a low of 3.9 percent in July 2001 to 10.2 percent by July 2002 and has stabilized at the 10 percent level with a slight decline to 9.5 percent in June. Such an increase over a two year period is the result of two major economic factors: a response in construction activity to the rapid economic growth during the late 1990s requiring additional commercial space and the subsequent economic slowdown that has occurred since 2001. Because of the imbalance of excess supply to limited demand for commercial real estate, new nonresidential construction has declined in order to reduce such an imbalance.

Federal Procurement

According to data provided by the Planning Department of the Maryland-National Capital Park and Planning Commission and the U.S. General Services Administration (GSA), Montgomery County received $4.7 billion in procurements from the federal government for federal fiscal year 2002 (October 1, 2001 through September 30, 2002). This represents an increase of 34.5 percent over the previous federal fiscal year (FFY) and is the highest in the County's history. Prior to 2002, federal procurement averaged approximately $3.4 billion per year.



SOURCES: M-NCPPC, Research and Technology Center and the U.S. General Services Administration

The dramatic increase in procurement during FFY02 represents the federal government's response to geopolitical events since 9/11. Both defense (+18.5%) and nondefense (+30.8%) increased significantly in FFY2002. Along with the Department of Defense, other defense procurements were from the Departments of the Army, Navy, and Air Force and the U.S. Army Corps of Engineers, all of which amounted to $1.3 billion. Procurement from the National Institutes of Health, which represents the largest federal agency in the County, amounted to $1.1 billion. The individual private sectors that benefited from the increase in federal procurement were the professional, scientific, and technical services sector, the information sector, and the manufacturing sector.

While the procurement dollars grew dramatically in FFY02, the effect of federal largess in the County's economy did not provide complete immunization from a sluggish economy. Such growth did not immediately increase payroll employment in some sectors. Based on payroll data for the first three quarters of 2002, most of the job growth occurred in the local government, construction, and education and health services sectors. The presence of NIH in the County's economy continues to contribute to the growth in education and health service employment. However, employment in the information, manufacturing, and professional and business services sectors declined during that period. These sectors experienced the largest gains in federal procurement. The explanation for such a discrepancy is attributed to the timing when the federal government makes the procurement awards and when activity or production begins. Because of such lags, increases in County employment may not occur until the last quarter of the County's fiscal year (FY) 2003 or the first half of FY04.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date 2003	Year To-Date 2002	2002
Leading Indicators						
National	June	0.1%		-0.7%		-0.2%
Washington MSA	May	0.7%		-0.2%		-0.6%
Coincident Indicators						
National	June	0.1%		0.4%		0.7%
Washington MSA	May	-0.5%		-4.4%		-0.7%
Consumer Confidence Index						
National	June	-0.1%		-27.9%		-14.7%
South Atlantic Region	June	14.4%		-23.4%		-9.6%
Consumer Sentiment (University of Michigan)	June	-5.3%		-10.1%		-2.4%
Consumer Price Index						
All Items						
National	June	2.1%		2.5%		1.6%
Washington - Baltimore CMSA	May	2.6%		3.2%		2.4%
Core CPI						
National	June	1.5%		1.7%		2.4%
Washington - Baltimore CMSA	May	2.5%		2.6%		2.9%
Retail Trade						
National (sales - nsa)	June	4.9%		4.6%		3.1%
Washington MSA (sales - nsa)	April	11.8%		6.0%		3.0%
Maryland (sales tax)	May	0.2%		-0.1%		1.6%
Montgomery County (sales tax)	May	4.3%		1.9%		0.9%
Employment						
National (household data - nsa)	May	137,567,000	136,559,000	136,823,000	135,528,000	136,485,000
- Percent Change		0.7%		1.0%		-0.3%
Washington PMSA (household data - nsa)	May	2,754,131	2,714,233	2,736,499	2,698,158	2,719,777
- Percent Change		1.5%		1.4%		3.7%
Montgomery County (resident)	May	492,174	487,285	490,902	484,271	489,673
- Percent Change		1.0%		1.4%		2.5%
Montgomery County (payroll)**	September ('02)	450,152	449,512	450,197	447,890	449,833
- Percent Change		0.1%		0.5%		0.5%
Unemployment						
National (nsa)	June	6.5%	6.0%	6.2%	6.0%	5.8%
Maryland (nsa)	June	4.6%	4.6%	4.4%	4.5%	4.4%
Washington PMSA	May	3.4%	3.7%	3.5%	3.8%	3.7%
Montgomery County	May	2.5%	2.8%	2.6%	2.9%	2.8%
Construction						
Construction Starts - Montgomery County						
Total ($ thousand)	June	$67,312	$233,411	$442,277	$897,203	$1,595,801
- Percent Change		-71.2%		-50.7%		9.5%
Residential ($ thousand)	June	$47,438	$75,071	$233,060	$339,395	$744,066
- Percent Change		-36.8%		-31.3%		-4.2%
Non-Residential ($ thousand)	June	$19,874	$158,340	$209,217	$557,808	$851,735
- Percent Change		-87.4%		-62.5%		25.0%
Building Permits (Residential)						
National	May	167,081	161,048	727,312	695,553	1,747,678
- Percent Change		3.7%		4.6%		6.8%
Maryland	May	2,914	2,424	12,076	11,961	29,293
- Percent Change		20.2%		1.0%		0.8%
Montgomery County	May	168	354	1,623	1,871	5,013
- Percent Change		-52.5%		-13.3%		-1.5%
Building Permits (Non-Residential)						
Montgomery County	May	126	171	660	799	1,858
- Percent Change		-26.3%		-17.4%		-11.6%
Real Estate						
National						
Sales	May	5,920,000	5,670,000	5,850,000	5,700,000	5,566,000
- Percent Change		4.4%		2.6%		5.1%
Median Price	May	$167,000	$155,000	$162,900	$152,200	$158,200
- Percent Change		7.7%		7.0%		7.0%
Montgomery County						
Sales	June	1,783	1,794	7,331	7,219	16,030
- Percent Change		-0.6%		1.6%		3.1%
Average Price	June	$368,177	$343,472	$345,960	$307,451	$320,418
- Percent Change		7.2%		12.5%		16.5%
Median Price	June	$305,000	$271,950	$277,667	$240,492	$255,275
- Percent Change		12.2%		15.5%		18.7%
Average Days on the Market	June	24	19	30	28	25

NOTE: **Data for *Year-To-Date* columns five and six are 2002 and 2001, respectively. Data in last column are 2001.

nsa=Not Seasonally Adjusted

METROPOLITAN AREA OFFICE MARKET

Office Vacancy Rate by Jurisdiction and Class, 06/03

Jurisdiction	Class A	Class B	Class C	Total
Loudon	18.4%	16.0%	13.1%	17.3%
Fairfax	16.3%	10.6%	7.5%	14.4%
Frederick	4.6%	13.9%	15.1%	9.3%
Alexandria/Arlington	9.4%	9.3%	4.5%	8.6%
Montgomery	***9.5%***	***8.8%***	***11.0%***	***9.4%***
District of Columbia	6.6%	5.1%	8.3%	6.2%
Prince George's	13.7%	8.8%	9.5%	11.2%
Metropolitan Area	11.3%	8.3%	8.2%	10.0%

Vacant Office Space Inventory by Jurisdiction and Class (sq.ft.)

Jurisdiction	Class A	Class B	Class C	Total
Loudon	1,035,902	496,893	68,805	1,601,600
Fairfax	10,972,867	2,969,546	260,278	14,202,691
Frederick	96,198	216,792	61,285	374,275
Alexandria/Arlington	2,185,775	1,624,717	311,638	4,122,130
Montgomery	***3,015,705***	***1,930,252***	***720,936***	***5,666,893***
District of Columbia	3,932,939	2,087,989	1,034,133	7,055,061
Prince George's	1,299,393	669,610	354,528	2,323,531
Metropolitan Area	22,538,779	9,995,799	2,811,603	35,346,181

Office Space Inventory by Jurisdiction and Class (sq.ft.)

Jurisdiction	Class A	Class B	Class C	Total
Loudon	5,640,194	3,110,907	525,875	9,276,976
Fairfax	67,385,162	28,031,362	3,448,090	98,864,614
Frederick	2,073,049	1,563,223	404,937	4,041,209
Alexandria/Arlington	23,202,841	17,563,357	6,926,197	47,692,395
Montgomery	***31,616,906***	***21,872,935***	***6,551,702***	***60,041,543***
District of Columbia	59,497,525	40,970,738	12,493,686	112,961,949
Prince George's	9,463,306	7,569,063	3,749,139	20,781,508
Metropolitan Area	198,878,983	120,681,585	34,099,626	353,660,194

Share of Office Space Inventory by Jurisdiction and Class

Jurisdiction	Class A	Class B	Class C	Total
Loudon	60.8%	33.5%	5.7%	100.0%
Fairfax	68.2%	28.4%	3.5%	100.0%
Frederick	51.3%	38.7%	10.0%	100.0%
Alexandria/Arlington	48.7%	36.8%	14.5%	100.0%
Montgomery	***52.7%***	***36.4%***	***10.9%***	***100.0%***
District of Columbia	52.7%	36.3%	11.1%	100.0%
Prince George's	45.5%	36.4%	18.0%	100.0%
Metropolitan Area	56.2%	34.1%	9.6%	100.0%

Note: Office Space inventory includes leasable and owner-occupied space.
Totals exclude non-classified space.
Vacant means "direct vacant" and does not include sublease space.

Source: Montgomery County Department of Planning, Research and Technology Center
Data compiled from Realty Information Group commercial space data file, 06/03/03